

# M&I Marshall & Ilsley Bank

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USDA Secretary Michael Johanns  
1400 Independence Ave., S.W.  
Washington, DC 20250

M&I Marshall & Ilsley Bank continues to support FSA direct and guarantee programs to enhance the long-term viability of production agriculture in this country. We are the eighth largest agricultural bank in the United States serving Wisconsin and seven other states. Meeting the financial needs of livestock producers in our trade areas is a substantial part of our business. Dairy farming alone has a \$20 billion economic impact in Wisconsin. We submit the following proposals for consideration:

1. Nutrient management issues are challenging producers on several fronts (i.e.: environmental, economic, social). New technologies are being evaluated and implemented to address livestock waste concerns. FSA needs to partner with producers, technology developers and agricultural banks to finance facilities and processes that will address these concerns.

We need to embrace viable alternatives for nutrient management that will recycle nutrients, reduce odor, and improve water quality. At the same time, the systems should ensure a return to the stakeholders and provide for reinvestment in the rural community, helping to ensure their economic future.

Attached is a proposed producer loan guarantee program and technology developer grant program which would assist in moving nutrient management programs forward. These programs would be outside of and in addition to any guarantee or grant programs currently in place.

2. The feed storage facility loan program eligibility should be expanded to include not only whole grains and other than whole grains, but hay crops such as alfalfa, clover, etc. for haylage, large round/square bales, etc.

3. Direct loan and guarantee loan programs should be expanded to include custom service providers to production agriculture including custom field operations (i.e.: planting/spray-spread applications/harvesting), and manure handling operations.

Agriculture continues to evolve and our financial services need to change as well to maintain environmentally and economically healthy farm enterprises and rural communities.



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## Nutrient Environmental Technology (NET) Programs

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### Executive Summary

Agriculture is one of America's most important industries. Farmers have always been excellent environmental stewards. Over the years they have adopted the newest technologies and as a result have dramatically reduced the environmental impact of their farming operations. Yet even with these huge achievements toward becoming more environmentally friendly, agricultural producers are under ever-increasing societal pressure and regulatory burden to do more.

In light of society's environmental expectations and the financial challenges that result from adopting new nutrient/environmental technologies, the workgroup has developed some potential programs that we believe would help agricultural producers better meet society's expectations. The individuals in the workgroup have significant experience working with all types and sizes of livestock operations within the state. It is our belief that the adoption rate of state-of-the-art nutrient/environmental technologies will serve to further protect air & water quality.

A limiting factor in the adoption of these systems is that many of these technologies have evidence of successful results; however, they are in the evolutionary stage. When this fact is coupled with the knowledge that these systems have economic returns that are more difficult to quantify the adoption of the technology has a lower priority for the business owner and moves down the investment list.

We are recommending that the Farm Service Agency implement a **Nutrient Environmental Technology Loan Guarantee Program and a Nutrient Environmental Technology Developer Grant Program**. The purpose of the programs is to reduce the economic risk that these systems have for business owners, technology suppliers/developers, and lenders. This will stimulate adoption of these systems and further reduce the impact agriculture has on air and water quality.

The main benefit of these programs will be an improved environment. This will result from greater technology adoption facilitated by the Producer Loan Guarantee and more technology choices, which would be facilitated by the Developer Grant. A guarantee program focused on state-of-the-art systems

would bring more operations on line with the ability to improve and preserve the nation's environmental resources. Thus reducing the negative impact that slow adoption has for acceptance of these systems.

Another major benefit is many of these systems have a biogas component, which allows the system to generate renewable energy. Renewable energy is a key priority in several areas of the country.

A final benefit is as operations more rapidly employ nutrient technology systems, the Country will benefit by protecting the quality of rural life and allowing for the continued growth of animal agriculture.

The workgroup has developed the program criteria, guidelines, eligibility, and examples, which are included in the attached exhibit.

In summary the Nutrient Technology Loan Guarantee program would significantly benefit the commerce of rural America by protecting the environmental resources, facilitating business growth, and advancing renewable energy technology.

## **Group Goals**

1. Increase the pace of nutrient technology development and adoption to reduce the environmental impact and odor from animal agriculture.
2. Reduce the economic risk to livestock producers, technology suppliers and lenders associated with adopting new nutrient management technologies, while gaining an improved overall environment.
  - Develop financing and credit sources or credits enhancement programs to mitigate the risk from new nutrient management of animal agriculture.
  - Enhance the use of existing state and/or federal programs to finance technologies, which can improve the quality of life in rural America (cleaner air, water and renewable energy).

## **Nutrient Environmental Technology Producer Loan Guarantee Program**

### **Guidelines**

**Purpose:**

To encourage the adoption of new nutrient management and odor mitigation technology by reducing financial risk.

**What is Eligible:**

New waste management technology like anaerobic digesters and electricity production systems, separators, lagoon covers, aeration systems, and additional reception pits, pipes and pumps needed to accomplish the process of the waste management technology.

**Who is Eligible:**

Any livestock producer or company working on a program to handle waste and odor mitigation issues.

**What is Ineligible:**

Traditional systems/technology like clay lined or concrete storage pits or lagoons, or any vessel that as its function stores manure. Equipment used to convey or transport manure.

**Guarantee Limit:**

\$1,000,000

**Collateral:**

2nd or 3rd real estate mortgage and fixtures disclaimer on the items financed and best obtainable lien on any other available assets.

**Guarantee:**

90%

**Financial requirements:**

25% post close owner equity and 1.25 debt coverage ratio.  
**Or**  
40% post close owner equity and 1.1 debt coverage ratio.  
(Based on 3-year average using proforma numbers and 20-year amortization on real estate and 7-year amortization on personal property.)

**Loan Parameters:**

Loan can be any amount (TBD) per site with multiple loans (sites) eligible. Requiring at least a 10% down payment from other sources on each project.

Lender can provide interest only for 1 year.

This loan is designed to be in a **junior position** to existing financing and is eligible to **subordinate** to future financing needs.

Loan can exceed the appraisal amounts by up to \$500,000

## Producer Loan Guarantee Program Examples

### **Example A**

Digester system	\$ 600,000
plus soft costs	60,000
less ineligible	(40,000)
subtotal	\$ 620,000
less down payment (10%)	(62,000)
Total Loan	\$ 558,000
Guaranteed amount (90%)	\$ 502,200
unguaranteed amount	\$ 55,800
plus down payment and ineligible	\$ 102,000

### **Example B**

Manure separator system	\$ 90,000
plus soft costs	10,000
less ineligible	(5,000)
subtotal	\$ 95,000
less down payment (10%)	(9,500)
Total Loan	\$ 85,500
Guaranteed amount (90%)	\$ 76,950
unguaranteed amount	\$ 8,550
plus down payment and ineligible	\$ 14,500

## **Nutrient Environmental Technology Technology Developer Grant Program**

### **Guidelines**

#### **Purpose:**

To facilitate the development and commercialization of new nutrient management and odor mitigation technology.

#### **What is Eligible:**

The installation of commercial scale pilot systems for the research and development new nutrient management and odor mitigation technologies. These projects must lead to new or significantly improved products or processes and have a high probability of commercial success within a relatively short time period (2-3 years). Technologies must provide significant economic benefit to rural America.

#### **Who is Eligible:**

Any American company or consortium working to develop on a system to better address nutrient management and odor mitigation issues can apply for funds. A consortium is an association between an American business and a higher educational institution.

#### **What is Ineligible:**

Technologies that have already been commercialized.

#### **Grant Limit:**

\$100,000

#### **Participation Limit:**

Maximum of 50% of total project Cost

#### **Grant Parameters:**

The scientific and technical merit of the technologies would be evaluated by an independent peer review panel.